



# Great Elm Capital (GECC)

Updated August 20<sup>th</sup>, 2024 by Samuel Smith

## Key Metrics

<b>Current Price:</b>	\$10.2	<b>5 Year CAGR Estimate:</b>	11.3%	<b>Market Cap:</b>	\$106 M
<b>Fair Value Price:</b>	\$11.2	<b>5 Year Growth Estimate:</b>	-0.2%	<b>Ex-Dividend Date:</b>	9/16/24
<b>% Fair Value:</b>	91%	<b>5 Year Valuation Multiple Estimate:</b>	1.8%	<b>Dividend Payment Date:</b>	9/30/24
<b>Dividend Yield:</b>	13.7%	<b>5 Year Price Target</b>	\$11	<b>Years Of Dividend Growth:</b>	0
<b>Dividend Risk Score:</b>	F	<b>Retirement Suitability Score:</b>	C	<b>Rating:</b>	Buy

## Overview & Current Events

Great Elm Capital Corporation is a business development company that specializes in loan and mezzanine, middle market investments. It seeks to create long-term shareholder value by building its business across three verticals: Operating Companies, Investment Management, and Real Estate. The company favors investing in media, healthcare, telecommunication services, communications equipment, commercial services and supplies. The company has a market capitalization of approximately \$106 million.

Great Elm Capital Corp. (GECC) announced its financial results for the second quarter ended June 30, 2024. The company reported several significant developments and financial metrics for the period.

In June 2024, GECC raised \$12 million in equity at Net Asset Value from Prosper Peak Holdings, LLC, supported by a \$3 million investment by Great Elm Group, Inc. Additionally, in April 2024, GECC issued \$34.5 million of 8.50% notes due 2029, and in July, the company issued an additional \$22 million of these notes to an institutional investor. These actions were aimed at bolstering liquidity and providing balance sheet flexibility.

For the second quarter of 2024, GECC reported net investment income (NII) of \$3.1 million, or \$0.32 per share, compared to \$3.2 million, or \$0.37 per share, for the first quarter of 2024. Net assets were \$126.0 million, or \$12.06 per share, down from \$118.8 million, or \$12.57 per share, at the end of March 2024. The decline in net assets was partly due to additional write-downs on illiquid investments. The company's asset coverage ratio stood at 171.0% as of June 30, 2024. The Board of Directors declared a quarterly dividend of \$0.35 per share for the third quarter of 2024, which equates to a 13.0% annualized yield based on the closing market price of \$10.73 on July 31, 2024.

## Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
<b>EPS</b>	---	---	---	\$1.52	\$1.44	\$1.07	\$0.54	\$3.02	\$1.67	\$1.65	<b>\$1.69</b>	<b>\$1.35</b>
<b>BVPS</b>	---	---	\$13.52	\$12.42	\$10.34	\$8.63	\$3.46	\$16.63	\$12.56	\$12.99	<b>\$13.14</b>	<b>\$13.00</b>
<b>DPS</b>	\$0.86	\$0.71	\$0.32	\$0.26	\$1.00	\$1.00	\$1.00	\$0.40	\$1.80	\$1.40	<b>\$1.40</b>	<b>\$1.20</b>
<b>Shares<sup>1</sup></b>	23.2	22.5	2.1	1.8	1.8	1.7	3.9	4.6	7.6	9.5	<b>10.4</b>	<b>13</b>

Great Elm Capital has had a very mixed record of earnings performance over the course of its existence. Furthermore, it has seen book value be very volatile since going public in 2016. We believe that the company will have a hard time growing book value and earnings per share as its large dividend payout will combine with its leveraged business model to stress the company's balance sheet during challenging periods.

## Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
<b>Avg. P/B</b>	---	---	0.86	0.79	0.76	0.9	0.85	0.83	0.83	0.76	<b>0.78</b>	<b>0.85</b>
<b>Avg. Yld.</b>	---	---	2.8%	2.6%	12.7%	12.9%	34.0%	2.9%	17.3%	14.2%	<b>13.7%</b>	<b>10.9%</b>

<sup>1</sup> In millions

Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.



# Great Elm Capital (GECC)

Updated August 20<sup>th</sup>, 2024 by Samuel Smith

The share price is currently undervalued based on the price-to-book value multiple, which we believe is the best single metric for valuing this security. Based on its history and our appraisal of management and the company's outlook, we believe paying 0.85x book value is fair for this company. Given that shares currently trade at 0.78 times book value, we view shares as trading below fair value, leading to an expected tailwind to total returns moving forward.

## Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	---	---	---	17%	69%	93%	185%	13%	108%	85%	83%	89%

The company lacks any competitive advantage given its small size and diversified exposure. Furthermore, their extremely erratic earnings and book value support this view that the business is not stable.

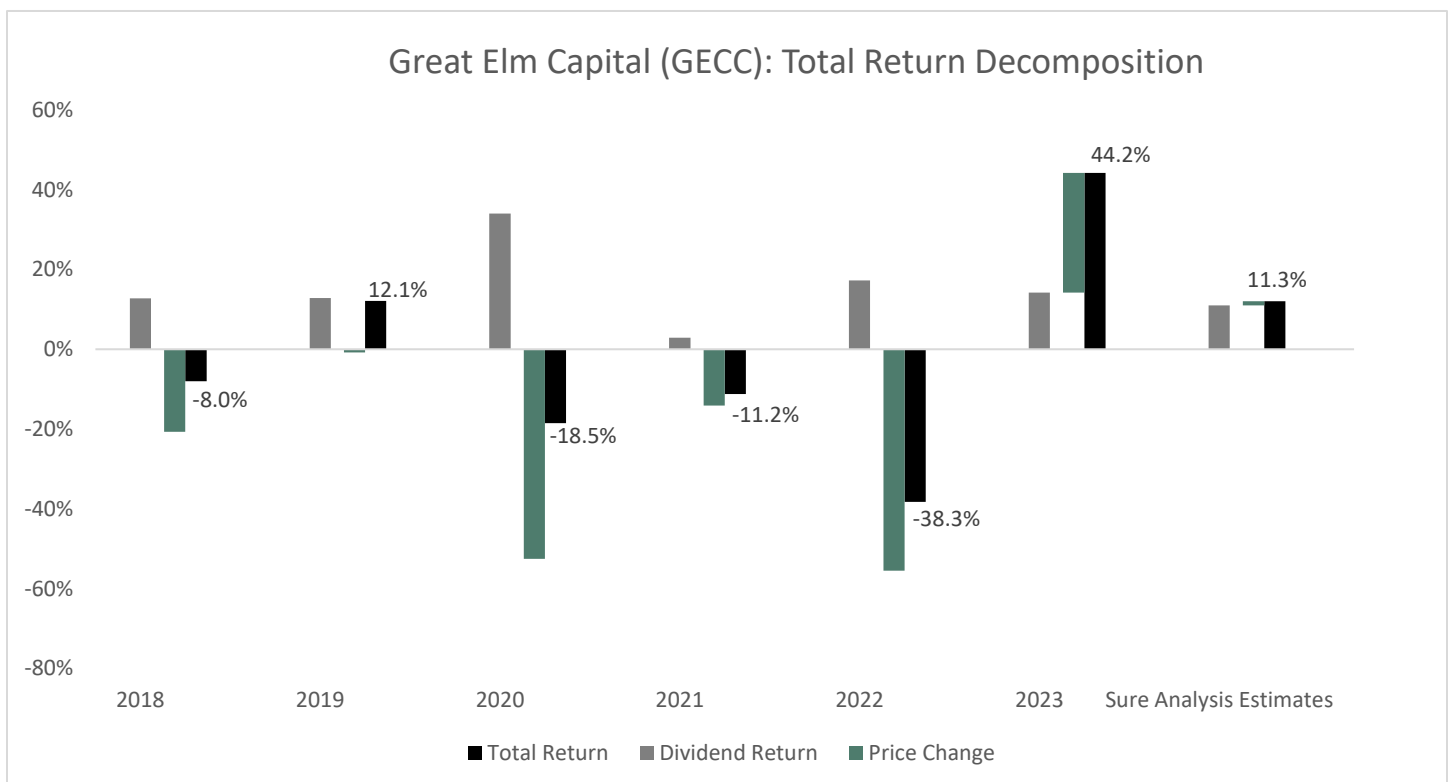
Great Elm Capital's balance sheet is also leveraged quite heavily, which leaves it exposed to rapid declines in book value like what was experienced a few years ago. As a result, even though it was not around for the Great Recession, we believe that it will not fare well in a protracted recession, making it a high-risk stock.

Finally, its payout ratio is quite elevated. Combined with the erratic earnings and book value, we view the dividend as risky.

## Final Thoughts & Recommendation

Great Elm Capital is not for the faint of heart. The dividend is at significant risk as indicated by the bloated yield and payout ratio. The earnings and book value history are erratic and unpredictable. That said, the stock is trading at a discount to book value. With 11.3% expected annualized total returns over the next half-decade, the stock earns a speculative Buy rating for very aggressive investors, but conservative income growth investors should steer clear.

## Total Return Breakdown by Year



Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.



# Great Elm Capital (GECC)

Updated August 20<sup>th</sup>, 2024 by Samuel Smith

## Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
<b>Revenue</b>	(6)	(4)	(14)	1	(5)	(5)	(29)	(7)	(16)	30
<b>SG&amp;A Exp.</b>	2	2	4	3	3	3	3	4	4	5
<b>Net Profit</b>	(8)	(5)	(18)	(3)	(9)	(8)	(32)	(10)	(16)	25
<b>Net Margin</b>	134.5%	116.9%	130.2%	-412%	168.3%	158.2%	110.7%	155.8%	96.9%	83.9%
<b>Free Cash Flow</b>	(21)	(31)	9	(24)	(30)	(24)	27	(58)	(42)	26

## Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
<b>Total Assets</b>	155	161	237	240	282	291	283	426	310	247
<b>Cash &amp; Equivalents</b>	-	4	67	3	4	5	53	9	1	1
<b>Total Liabilities</b>	82	61	64	108	171	204	204	352	225	148
<b>Accounts Payable</b>	26	16	24	70	88	74	78	204	70	4
<b>Long-Term Debt</b>	29	33	35	31	76	120	116	142	153	140
<b>Shareholder's Equity</b>	73	100	173	132	110	87	80	75	85	99
<b>LTD/E Ratio</b>	0.40	0.33	0.20	0.24	0.69	1.38	1.45	1.90	1.81	1.42

## Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
<b>Return on Assets</b>	-5.7%	-3.3%	-10.1%	-1.2%	-3.5%	-2.6%	-11.1%	-2.9%	-4.2%	9.1%
<b>Return on Equity</b>	-11.4%	-6.0%	-14.1%	-1.8%	-7.4%	-7.7%	-38.4%	-13.3%	-19.6%	27.6%
<b>ROIC</b>	-7.2%	-4.4%	-11.1%	-1.5%	-5.1%	-3.8%	-15.9%	-5.0%	-6.9%	10.6%
<b>Shares Out.</b>	23.2	22.5	2.1	1.8	1.8	1.7	3.9	4.6	7.6	9.5
<b>Revenue/Share</b>	(3.91)	(1.80)	(6.41)	0.34	(3.01)	(2.79)	(13.01)	(1.62)	(2.57)	3.97
<b>FCF/Share</b>	(14.25)	(12.73)	4.07	(12.50)	(17.16)	(14.33)	12.35	(14.36)	(6.68)	3.38

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.

### Disclaimer

Nothing presented herein is, or is intended to constitute, specific investment advice. Nothing in this research report should be construed as a recommendation to follow any investment strategy or allocation. Any forward-looking statements or forecasts are based on assumptions and actual results are expected to vary from any such statements or forecasts. No reliance should be placed on any such statements or forecasts when making any investment decision. While Sure Dividend has used reasonable efforts to obtain information from reliable sources, we make no representations or warranties as to the accuracy, reliability or completeness of third-party information presented herein. No guarantee of investment performance is being provided and no inference to the contrary should be made. There is a risk of loss from an investment in marketable securities. Past performance is not a guarantee of future performance.